

Ryan Lam, CFA

Head of Research

ryan.lam@shacombank.com.hk

+852 2841 5283

Instant Thoughts

4 September 2019

A Game of Two Halves

- Boris Johnson will “prorogue”, or suspend, Parliament for five weeks.
- The prorogation is deviously designed to lend weight to his threat in walking away with no deal. Conservatives will, in general, nod along rather than backstab the newly-elected PM to wrestle with the EU.
- Sadly, this is another misjudgment in a long list of them. When Mr. Johnson comes home empty-handed after the European Council on 17/18 October, we expect the no-confidence motion to be pushed forward.
- Seeking another extension from the EU would top the to-do list of a caretaker government. A general election is largely a question of when rather if.
- Empty promises and canned message get the UK nowhere. Perhaps life is all about the journey itself, not the destination itself – at least you can rake in from the rise and fall of pound.

The German sociologist Max Weber had it right: Madness is by no means an unintentional by-product of high office. It is an inherent trait instead, because political leaders have to deal with tremendous mental strain.

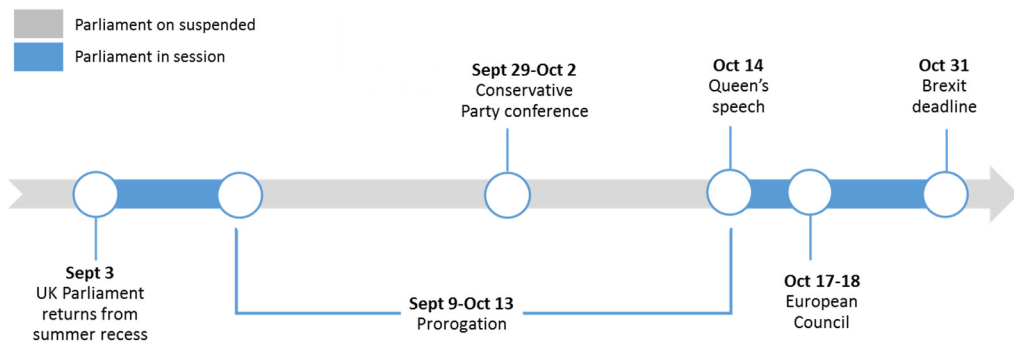
Boris Johnson is a living proof of Weber’s aphorism. Once settled his feet under the new desk, the UK Prime Minister asked the Queen to “prorogue”, or suspend, Parliament for five weeks from 9 September to 14 October (Exhibit 1). The Queen, who strives to preserve her hard-earned appearance of apolitical, rubber-stamped the pro forma request.



上海商業銀行

SHANGHAI COMMERCIAL BANK

Exhibit 1: Brexit Timeline

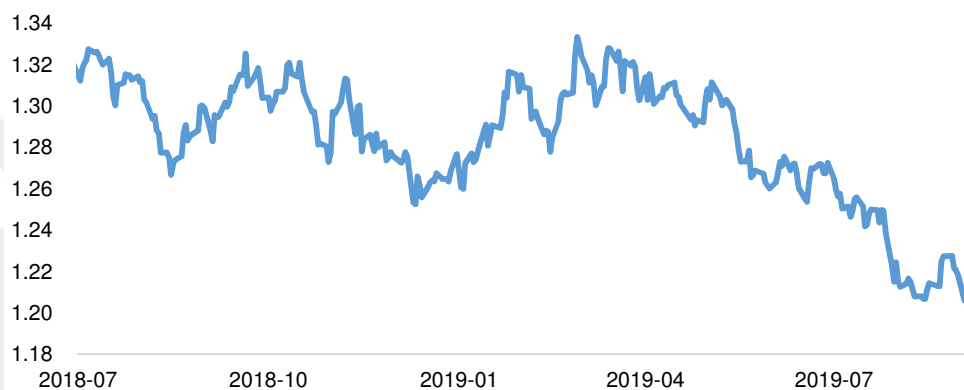


Source: Shanghai Commercial Bank

Fear the fear itself

If you think Johnson's dirty play leads a firestorm in Parliament, you are mistaken. The prorogation is deviously designed to lend weight to his threat in walking away with no deal. Conservatives will, in general, nod along rather than backstab the newly-elected PM to wrestle with the EU, even after yesterday's rebellion. If not go down a path less-trodden, why bother to hand pick a serial liar at the first place? Shouldn't we just get it done? This thought alone, realistic or not, has rattled the market (Exhibit 2).

Exhibit 2: GBPUSD



Source: CEIC, Shanghai Commercial Bank

Over the coming few weeks, the starry-eyed Conservatives will stick to the party line that the EU will shelve the Irish backdrop when they have their backs against the wall. This is, we argue, another misjudgment in a long list of them. The EU may feel bitter if the UK crashes out, but they are more reluctant to imperil the Good Friday Agreement that has brought two decades of peace to the island of Ireland.

Delivering is harder than making promises. Ironically, politicians is not known for eating their own cooking. For Conservative, Mr. Johnson will always be disposable. When Mr. Johnson is caught red-handed in breaking his words, there's always a fallback option – the so-called no-confidence vote. We expect the no-confidence motion to be pushed forward soon after the European Council on 17/18 October. A caretaker government will then take over and seeking another extension from the EU would top its to-do list. A general election is largely a question of when rather if.

All in all, empty promises and canned messages get the UK nowhere. Perhaps as the old saying goes, life is all about journey, not the destination – at least you can rake in from the rise and fall of pound.



上海商業銀行

SHANGHAI COMMERCIAL BANK

Table 1: Strategy Performance Summary

Date		Key recommendations	Ex post performance (1-month)				
			Entry level*	Low	High	Period-end level	1-month return
1-Aug-19	11:15	Skeptical about just how much juice is left in the dollar rally	98.81	97.22	99.02	98.81	0.0%
24-Jul-19	10:15	Sterling is likely to be an outcast	1.2434	1.2016	1.2520	1.2256	1.5%
5-Jul-19	10:10	The theme of (HKD) normalisation will unfold yet again	7.7900	7.7883	7.8354	7.8300	0.5%
2-Jul-19	17:30	There is nothing compelling about the current AUD rally	0.6990	0.6788	0.7076	0.6790	2.9%
4-Jun-19	17:30	We see little value in chasing the AUD higher	0.6980	0.6833	0.7048	0.7021	-0.6%
22-May-19	15:50	The pound will test lower levels in the short run	1.2676	1.2512	1.2759	1.2723	-0.4%
8-May-19	14:15	The idea of sell (AUD) in May still looks appealing to us	0.7023	0.6865	0.7023	0.7000	0.3%
2-May-19	11:00	Dollar spike is more than flashes in the pan	97.60	97.04	98.13	97.76	0.2%
29-Apr-19	10:00	The BoC might deliver something for bears to get their teeth into	1.3458	1.3378	1.3505	1.3488	0.2%
9-Apr-19	19:00	It could take weeks for the USD/HKD to revert back to 7.85	7.8423	7.8324	7.8494	7.8483	0.1%
21-Mar-19	10:50	Playing the high-carry USD from the long side	95.88	95.74	97.52	97.39	1.6%
13-Mar-19	10:20	The resolution in sight warrants holding a GBP long position	1.3084	1.3081	1.3381	1.3090	0.0%
8-Mar-19	10:35	EUR/JPY is a cleaner expression of the EUR-bearish view	124.86	123.85	127.45	124.99	-0.1%
19-Feb-19	9:10	Underweighting the dollar and staying nimble	96.83	96.29	97.71	96.48	0.4%
12-Feb-19	9:10	For HKD bear, it is the Trojan horse you want to smuggle in	7.8470	7.8470	7.8500	7.8500	0.0%
31-Jan-19	10:40	The USD will going on struggling	95.26	95.16	97.16	96.06	-0.8%
30-Jan-19	10:10	We have interest in chasing GBP higher	1.3094	1.2779	1.3335	1.3293	1.5%
16-Jan-19	11:20	The GBP remains a buy-in-dip play	1.2845	1.2839	1.3217	1.2905	0.5%
12-Dec-18	10:30	Fate will smile upon the GBP once again next year	1.2513	1.2473	1.2862	1.2844	2.6%
14-Nov-18	11:00	We prefer to sell the EUR into rallies	1.1304	1.1263	1.1437	1.136	-0.5%
14-Nov-18	11:00	We prefer to sell the GBP into rallies	1.3010	1.2485	1.307	1.2627	3.0%
9-Nov-18	10:30	The resurgence of the USD will continue	96.7	96.08	97.7	96.7	0.0%
8-Oct-18	11:20	USD/CNY remains a buy-in-dip play	6.9036	6.8725	6.9769	6.9320	0.4%
3-Oct-18	16:30	A re-test of the lows (for EUR) around 1.1450 is on the radar	1.157	1.1306	1.1617	1.14	1.5%
21-Sep-18	15:00	USD/HKD to hit 7.83 in October	7.8100	7.8033	7.8423	7.8423	0.4%
13-Sep-18	9:50	We prefer to trade GBP on the long side	1.2960	1.2927	1.3294	1.3168	1.6%
*Entry level recorded at the time of publication, if not stated otherwise			Total return[#]				17.7%
#Since August 2018			Benchmark return^{#^}				0.4%
^Citi Parker Global Currency Manager Index			Hit ratio[#]				79.3%

Source: Shanghai Commercial Bank

Recent Publications

Two Wrongs Don't Make a Right	Aug 28, 2019
War and Peace	Aug 2, 2019
If You Can't Beat Them, Join Them	Aug 1, 2019
Game, Set, and Match to Mr. Draghi	Jul 26, 2019
He Who Laughs, Might Not Last	Jul 24, 2019
Handling Disappointment Right	Jul 18, 2019
Storm in a Beer Mug	Jul 5, 2019
Into the Murky Water	Jul 2, 2019
The Value of Nothing	Jun 28, 2019
Dr. Powell or: How I Learned to Stop Worrying and Love the Rate Cut	Jun 20, 2019
Draghi's Parting Gift	Jun 19, 2019
The Next Shoe to Drop	Jun 12, 2019
Expecting for an One-Two Punch	Jun 4, 2019
Run, Boris, Run!	May 28, 2019
Strike Four and You're Out!	May 22, 2019
A Farewell to Arms	May 17, 2019
You Can Still Sell in May	May 8, 2019
Infinity War	May 6, 2019
Shrug Off Insurance Cuts	May 2, 2019
Hold the Champagne	Apr 29, 2019
Why Diversification Is So Hard to Do	Apr 17, 2019
Peltzman Effect and HKD	Apr 10, 2019
Banging Head against a Brick Wall	Apr 3, 2019
Inverted, But what's Your Point?	Mar 26, 2019
Patience Rules	Mar 21, 2019
A Reflection on Modern Monetary Theory	Mar 18, 2019
Waiting for Godot	Mar 13, 2019
Sleepless in Frankfurt	Mar 8, 2019
Rinse and Repeat	Mar 6, 2019
Deal or No Deal?	Feb 22, 2019
Be Water, My Friend	Feb 19, 2019
Tranquility before the Storm	Feb 12, 2019
First Do No Harm	Jan 31, 2019
Impasse Is the New Normal	Jan 30, 2019



上海商業銀行
SHANGHAI COMMERCIAL BANK

Disclaimer - Investment Involves Risk

Investment involves risks, investors may be subject to substantial losses. The exchange rates of any currencies or the price and income of any securities, funds, bonds or other financial instruments described herein may fall as well as rise. Past performance should not be taken as an indication of future performance.

RMB is currently not freely convertible, the exchanges of RMB are subject to a daily limit imposed by Chinese and Hong Kong regulatory and supervisory authorities. RMB convertibility from offshore RMB (CNH) to onshore RMB (CNY) is a managed currency process subject to foreign exchange control policies of and restrictions imposed by the Chinese government. There can be no assurance that RMB will not be subject to devaluation at some point.

Any projections and opinions expressed herein are expressed solely as general market commentary and do not constitute investment advice or guaranteed return. Shanghai Commercial Bank Limited and its affiliates may trade for their own account in, may have a position in, all or any of the currencies, securities or investments mentioned in this document. Customers are advised to make an independent review and reach their own decisions regarding the economic benefits and risks of any transaction and the legal, regulatory, credit, tax and financial aspects of such transaction relating to their particular circumstances. Neither the information nor any opinions contained herein constitutes a solicitation or offer by Shanghai Commercial Bank Limited to buy or sell, whether as principal or agent, any currencies exchange, securities, funds, futures, options or other financial instruments or provide any service or investment advice.

Although the information herein contained is obtained or compiled from sources we believe to be reliable, Shanghai Commercial Bank Limited cannot and does not warrant the accuracy, validity, reliability, timeliness or completeness of any such information. Shanghai Commercial Bank Limited expressly disclaims any warranties of fitness for a particular purpose or duties of care and accepts no liability (whether in tort or contract or otherwise) for any loss or damages arising from any use of, or inaccuracies or omissions of the information. All information is provided "as is", and is subject to change without prior notice. The information herein contained may not be reproduced, distributed or published in any medium for any purpose without prior express written consent from Shanghai Commercial Bank Limited. The information herein contained has not been reviewed by the Hong Kong Securities and Futures Commission.



上海商業銀行
SHANGHAI COMMERCIAL BANK